

Forest Sector Workgroup Forest Management — Forest Health & Avoided Fire Fires

Although forest health and avoided catastrophic wildfires were highlighted as a policy option by the Technical Work Group on Forestry to the Governor’s Climate Advisory Team (F1) and on our original agenda for consideration, it appears unlikely we’ll have the time to deal with these issues in any depth. As an option, the industry caucus would like to propose the work group consider endorsing a complimentary program to improve forest stand structure and health, encourage fuel reduction treatments and help avoid the GHG emissions and environmental damage associated with catastrophic wildfires.

As proposed, this complimentary program centers on the current taxation of timber and other raw forest materials harvested and removed from the woods. There are four separate product categories to consider:

Biomass

Twigs, tops and branches have traditionally had little economic value and been left in the woods following harvest to burn (controlled fires or wildfires) or decay. Recently, however, a constrained fiber supply and a desire to power forest products mills with more “green” power have prompted the increased removal and use of this forest biomass. This increased activity has prompted the Department of Revenue to consider applying the 5% Forest Excise Tax (FET) to an assessed value of \$10 per ton on this material. This would be counterproductive! Any increased costs through new taxes would discourage the use of this biomass, which would then remain in the woods. This can impact green house gas emissions in three ways:

- ❑ Light weight biomass left in the woods decomposes quickly generating fugitive emissions in the form of methane gas with a Global Warming Potential 21 times that of carbon dioxide (TCR protocols).
- ❑ Biomass burned in the woods (controlled fires or wildfires) doesn’t burn as clean as hog fuel heating boilers and fails to capture the potential as carbon-neutral power.
- ❑ Biomass used for power generation at mills burns clean and displaces power generated by fossil fuels.

The most accessible biomass material is now being removed from the woods and used beneficially. It should remain untaxed. In fact, the State should consider a tax credit or payment subsidy to further promote utilization of this biomass resource. The State of Oregon is now subsidizing biomass removal at \$10 per ton through a state income tax credit.

Pulpwood

Pulpwood delivered to a mill as a primary product is subject to the FET at the assessed value of \$10 per ton. (Chips and mill residues shipped as a byproduct are not subject to the Forest Excise Tax). Eliminating this tax would provide an incentive to remove this low value material from the woods, encourage its use for energy and products, and prevent the burning, rapid decay and fugitive GHG emissions cited above.

Comment [JHEjr1]: Another way to say this is that it is being taxed at fifty cents per ton.

Comment [a2]: Not sure if we can ask for a tax credit for something that hopefully will not be taxed. Not sure if what I wrote makes sense, but my intention is that if you haul slash off the landing as part of your operations, you get a tax credit on the logs, incentive to get the tops out of the brush to the landing.

Comment [JHEjr3]: Tax is fifty cents per ton. A bit over \$1 million in total taxes for pulpwood.

Comment [JHEjr4]: The FET is a stumpage tax applied to the value of the log on the stump, prior to felling. Chips do not pay the FET because they are a product of a log that has already had the FET applied.

Small Log Sales

Used primarily in Eastern Washington, small log sales are subject to the FET based on a delivered price to the mill of \$28 per ton. The tax rate recognizes the opportunity to mill these small logs (down to a 4.5-inch top) into solid wood products, but also recognizes they have less value than larger scaled log sales. It fails, however, to fully recognize the environmental value of removing these trees from overstocked stands riddled with disease. A tax reduction would encourage additional small log sales and allow more acres of public and private forests to be treated and restored to healthy stand conditions resistant to catastrophic wildfires.

Comment [JHEJr5]: Updated value

DNR Forest Improvement Sales

Sold as delivered log sorts to the highest bidder at public auction, the purchaser of Forest Improvement Sales is charged the public Forest Excise Tax (5%) based on the purchase price. These sales are unique, however, and are sold under separate statutory authority — not to generate a return for the trust beneficiaries but to restore stand structure, promote forest health and reduce the risk of wildfire. Eliminating the tax obligation would encourage more bidders and generate more income to expand the program. It would, however, reduce income to the affected counties who receive the tax revenues.

Conclusion

As a complementary program, this proposal seeks to address some of the pressing climate change issues related to biomass energy, forest health and catastrophic wildfires while avoiding additionality and other requirements of the carbon market. This proposal would not impact the Forest Excise Tax charged on the majority of the high-value timber harvested on private and public lands in Washington. It should, therefore, have a relatively modest fiscal impact on state and county coffers but this is an area that requires further study.

Comment [a6]: Is feasible and/or useful to try to quantify the revenue lost to state and counties as a result of catastrophic wildfire. Even if the fuel treatments have a small impact to wildfire risk, it should result in big \$\$ savings.